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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 002324

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SUBJECT: PUTIN AND PURVANOV IN ATHENS: THE LONG ROAD TO BURGAS-ALEXANDROUPOLIS

Classified By: AMB Charles P. Ries for Reasons 1.4(b) and (d)

¶1. (C) Summary. Greek Prime Minister Karamanlis, Russian President Putin and Bulgarian President Purvanov met in Athens on September 4, to discuss the three countries' cooperation on the long-proposed, but not yet realized, Burgas-Alexandroupolis pipeline (B-A). Despite higher expectations by some commentators, the talks resulted only in a reiteration of the three countries' intent to agree on the implementation of the long-standing project before the end of the year. Our MFA contact said the meeting had been productive, but had not resolved some of the major concerns on B-A, such as the equity structure or operational/management arrangements. Contrary to our earlier concerns, there does not appear to have been any Russian effort to link the B-A project with other energy issues such as the renewal of the Russian natural gas contract (expiring in 2016) or the proposed Turkish-Greek-Italian natgas interconnector. Press speculation surrounding the meeting was all over the map, but more reputable sources highlighted US concerns regarding further EU dependence on Russian energy resources and underlined US Secretary Bodman's meeting later this month with Foreign Minister Bakoyannis. End Summary.

The Burgas-Alexandroupolis Project

¶2. (SBU) The B-A project was originally conceived in 1994 as a project to relieve tanker traffic through the congested Bosporus strait. Encountering a variety of problems, including low market prices for oil and difficulty in finding financing, the project languished for nearly ten years before being revived in 2004. In April 2005, Russian, Greek and Bulgarian leaders signed a political agreement stressing their commitment to the project. The 285-kilometer cross-border pipeline is designed to carry Russian oil from the Bulgarian port of Burgas to the Greek port of Alexandroupolis in northern Greece. The project has an estimated investment cost of 750-800 million US dollars with an annual capacity of 35 million tonnes of oil. Recently, discussions have stumbled over the division of equity between the three participants. Since it will almost exclusively carry Russian oil, the Russians want the vast majority of equity shares in the pipeline, while the Greeks want to limit the Russians to 51 percent and to divide the remaining equity with Bulgaria.

MFA Readout

¶3. (C) Our MFA contact, Dimitris Platis of DepFonMin Stylianides' office, told EconCouns that the visit had gone

fairly well, but had not been very substantive. In contrast to press speculation that this "summit" would result in a final agreement green lighting the project, it resulted in only one important deliverable: the establishment of a "strong" coordinating body made up of the key ministers in charge of making B-A happen, which will meet in October to work out the final details of the interstate agreement on Burgas-Alexandroupolis. Platis noted this was a significant advance -- in Greece alone eight different ministries have a role in B-A, a situation mirrored in the other two partner states. Platis was optimistic this step paved the way for a final signing by the three premiers by the end of the year.

¶14. (C) Platis was also clear on what the leaders did not achieve: any agreement on equity stakes or operation/management structure. "Personally I had hoped such a meeting could have helped iron out these key details." Platis claimed nonetheless to be convinced Putin had been right to take these issues off the table at the meeting as they could have prevented any political agreement from being reached whatsoever. Indeed, he claimed the leaders had formally agreed to leave equity/operational issues to the private companies involved in the pipeline. For Greece, this includes the firms Hellenic Petroleum, the Copelouzos group and its joint venture with Gazprom Prometheus Energy, and the Latsis group.

¶15. (C) In his readout, Platis maintained that the Russian Government had been the prime mover behind the three-way meeting. He said Putin told Karamanlis Russia had completed a 2500 km pipeline to Asia in the span of eight months, but that B-A discussions had been going on for 13 years with no results. "Time is of the essence," Putin had stressed,

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noting that further delays ran the risk of destroying the project. Platis theorized Putin was motivated primarily by the fact B-A promised to save his oil majors significant money. "Oil firms lost \$800 million in the winter of 2004-05 as a result of shipping delays through the Bosphorus. The Russians want to find a way to stop this bleeding."

Surprise: Russians Didn't Demand Concessions on Gas

¶16. (C) Contrary to our earlier concerns, however, Platis claimed the Russians were open about the fact that B-A was in the Russian interest, and did not press the Greeks for concessions in the gas sphere (including the proposed Turkey-Greece-Italy natgas interconnector that has been the source of considerable Gazprom and Russian State pressure over the last six months.) In fact, Platis acknowledged that it was the Greeks who raised the extension of Greece's current bilateral gas supply agreement, currently slated to expire in 2016. Putin's cryptic reaction to the Greek request on the extension was that Russia "would work on it." As for rhetoric in the post-"summit" Declaration relating to closer cooperation on gas issues, Platis said the Russians had hoped for more but did not push hard for it.

The Private Sector Reaction

¶17. (C) Vangelis Chronis, who attended PM Karamanlis' September 4 dinner for Presidents Putin and Purvanov on behalf of the Latsis group, told the Ambassador he felt the "summit" had primarily been for show. Chronis also told us Putin had originally proposed the meeting be held later in the fall. It had been advanced to early September at the Greek request to take place just before PM Karamanlis' annual speech to the Thessaloniki International Fair. In fact, he said, FM Bakoyannis was very pleased September 4 with how the visit had gone and by its likely positive domestic political impact.

Press Sees a U.S. Conspiracy

¶18. (SBU) Press reporting on the meeting was highly speculative, and in the finest Greek tradition, all over the map. Several reports underlined purported U.S. concern or opposition to the pipeline as a threat to the Baku-Tblisi-Ceyhan pipeline (probably confusing the BTC with the Turkish led alternate Bosphorus bypass pipeline that would run from Samsun to Ceyhan) and interpreted Secretary of Energy Bodman's upcoming meeting with Foreign Minister Bakoyannis as proof of the supposed American opposition to Russian energy policy and the B-A. More informed sources suggested that US interest and "pressure exerted behind the scenes," only magnified the importance of the Russian visit. At least two major papers reported that "the Americans have told Athens both in public, when Secretary Rice was in Athens, but also in private, that under no circumstances do they want a stronger role for Russia in the European energy sector."

Comment

¶19. (C) This meeting appears to have been less than it at first appeared. Expectations were higher for a resolution to the equity/management sharing problems as well as for a stronger statement from the states involved that the B-A was open for business (a move designed to get corporate investors to opt for B-A as THE Bosphorus bypass). Nevertheless, the meeting apparently resulted in a political impetus for further discussions, and it is possible that a solution is only a few months away. We expect that the visit will be used by the GoG in the upcoming Thessaloniki Trade Fair to demonstrate that the current government can deliver major international accords without giving away the farm. Post will be obtaining more read-outs on this meeting. End comment.

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